Vintners Quality Alliance

2006 Annual Report

Vision

VQA Ontario will regulate with integrity and rigour and strive for continuous improvement in its practices. VQA wines will be appellation wines of high quality, representing comprehensive process and authenticity standards.

Values

Integrity and Fairness – VQA Ontario will carry out its statutory authority with transparency and fairness, and strive to uphold high ethical standards.

Responsiveness and Communications – VQA Ontario will conduct its operations openly, providing its members and the public access to information and timely responses to inquiries. It will adopt and implement appropriate policies to respect the confidentiality of its members and stakeholders. It will promote the value and benefits of VQA wines to consumers.

Firmness and Responsibility – VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

Accountability – VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

Effectiveness – VQA Ontario will strive to carry out efficient and cost-effective operations, and continue to pursue service improvements in all areas of operations.

2008-06029/

Coming to the end of my first year as President and Chair of VQA Ontario, I am encouraged by what we have accomplished. The highlight of the past year was the long awaited implementation of regulations establishing sub-appellations within the Niagara Peninsula. This achievement marks a significant step forward for Ontario wine appellations and for the development of a super-premium VQA segment that is focused on appellation wines. It establishes unique regions that can be used to identify wine origin and is backed up by VQA Ontario's rigorous program of quality assurance and verification. This promises to be the beginning of an exciting new period that will add value to VQA wines and provide a great opportunity for consumers to understand and appreciate the sense of place represented by appellation wines.

Of course many other activities continued throughout the year. The majority of staff effort was devoted to carrying out regulatory responsibilities and ensuring compliance with VQA rules and regulations. Early in 2005, a decision was issued by the Alcohol and Gaming Commission of Ontario as a result of a tribunal hearing on a member winery's appeal of a regulatory decision made by VQA Ontario. This was the first ever tribunal held under the provisions of the VQA Act and it was resolved in favour of VQA Ontario. This is encouraging support of our "fair but firm" approach to enforcement.

A committee was struck in 2005 to study the issues related to fraudulent Icewines that are being sold throughout Asia. As the authority that certifies authentic Icewine, VQA Ontario has taken several steps to ensure that real Icewine can be authenticated and frauds can be identified. To this end, the Late Harvest monitoring program has been strengthened and VQA Ontario is providing certificates of origin to foreign customs officials to identify authentic Icewine. VQA Ontario will continue to support the industry on this complex issue.

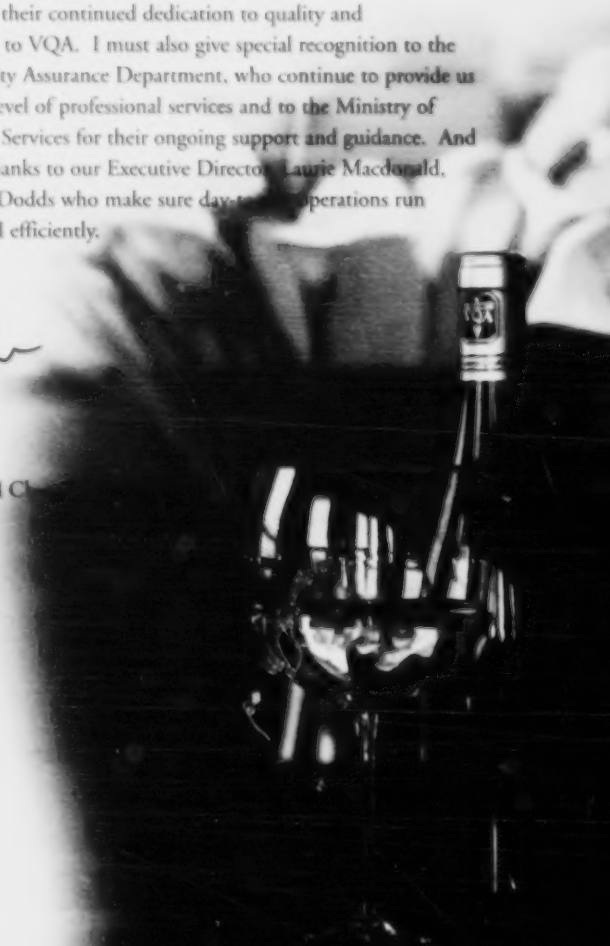
VQA Ontario and its members again faced a series of challenges this past year. Winter damage resulted in a grape shortage in 2005 that came at a time when inventories were low and tender grape varieties were still recovering from damage inflicted in 2003. Grape supply continues to be a challenge for all VQA wineries and is reflected in the sales information later in this report. The availability of VQA wines is expected to decline again in 2006 after rebounding in 2005. Thankfully, the winter of 2005 – 2006 was reasonably mild and hopes are high for a good harvest in 2006.

VQA Ontario has also continued the long march towards improved national and international recognition for the VQA wine standard. Major issues still remain with the national wine standards process but I am still optimistic that we can find a practical solution to our concerns about label integrity and the growing scourge of fake Icewine.

I had the pleasure of welcoming another 8 new wineries to VQA last year, bringing the number of Ontario VQA wineries to 86 – all of them adding to the identity of a dynamic and unique wine culture in Ontario.

I extend my thanks to all of my colleagues on VQA Ontario's Board of Directors and Committees, and our VQA winery members for their continued dedication to quality and commitment to VQA. I must also give special recognition to the LCBO Quality Assurance Department, who continue to provide us with a high level of professional services and to the Ministry of Government Services for their ongoing support and guidance. And finally, my thanks to our Executive Director, Laurie Macdonald, and Barbara Dodds who make sure day-to-day operations run smoothly and efficiently.

Greg Berti
President and Ch



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I find the pressure of welcoming another 8 new wineries to VQA last year bringing the number of Ontario VQA wineries to 80 – all of them adding to the vibrancy of Ontario and unique wine culture in Ontario.

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Greg Bett
President and Chair

EXECUTIVE DIRECTOR'S REPORT

VQA Ontario continues with its mandate to administer and enforce Ontario's wine appellation system. VQA membership has grown again this year and the volume of our core activities in wine evaluation, audit and inspection is growing in response. However with the crop shortage in 2003, and subsequent reduction in revenues over the past 18 months, VQA Ontario has reduced spending where possible. Verification and enforcement remain our top priority.

Wine approvals were up from 843 to 993, reflecting the recovery in grape supply with the 2004 harvest. Overall volume of VQA wine approved was also up dramatically to approximately 16 million litres, an increase of almost 80 percent.

Routine audits and inspections continued throughout the year and overall compliance with the VQA regulations continues to be very good. Statistics on inspections and compliance actions can be found later in this report. Also this year, VQA Ontario has compiled statistics on the performance of wines in the tasting component of approval process and distributed a "winery report card" to each member winery with detailed information on their wines success at the panel. It is hoped that this information will provide the tools for wineries to continue to identify their strengths and weaknesses and continue to improve on quality.

Enshrining sub-appellations in VQA regulations was a major amendment to the regulations completed this past year. This change took effect in November of 2005 and audit processes have been adapted to verify sub-appellation origin. The Standards Development Committee continues its ongoing review of the regulations with a view to identify ways to improve the overall quality of VQA wines and provide support to wineries pursuing this objective.

Budget planning has been critical this year with reduced supply and sales, and therefore less fees collected on VQA wine sales. In anticipation of a similar downturn when the 2005 vintage is released, VQA Ontario activities will be limited to core business for the near term and significant cuts to expenses have been implemented including reductions to staff and discretionary expenses. The planned operating deficit resulting from fee decreases in 2003 continues and it is expected that all unrestricted cash assets will be depleted by the end of 2007 with only a modest legal contingency fund remaining in place. Member fees will be reviewed at that time in light of grape supply and market conditions. Financial statements are published in the body of the annual report.

I thank VQA Ontario's Board of Directors, Committee volunteers and others in the industry and related trade who give their time and advice freely. And of course, a much deserved thank you to those who make the whole system work on a day-to-day basis - Barbara Dodds, winery audit staff, LCBO Quality Assurance staff and Errol McKibbon.

I am writing this message in March, just as the new growing season is about to begin. It seems that we have been spared the worst of the winter weather and I am hopeful that this coming year will be full of potential and result in some fine examples of VQA wines.

It should be a great vintage in 2006 and I look forward to another rewarding year.

L. Macdonald

Laurie Macdonald
Executive Director

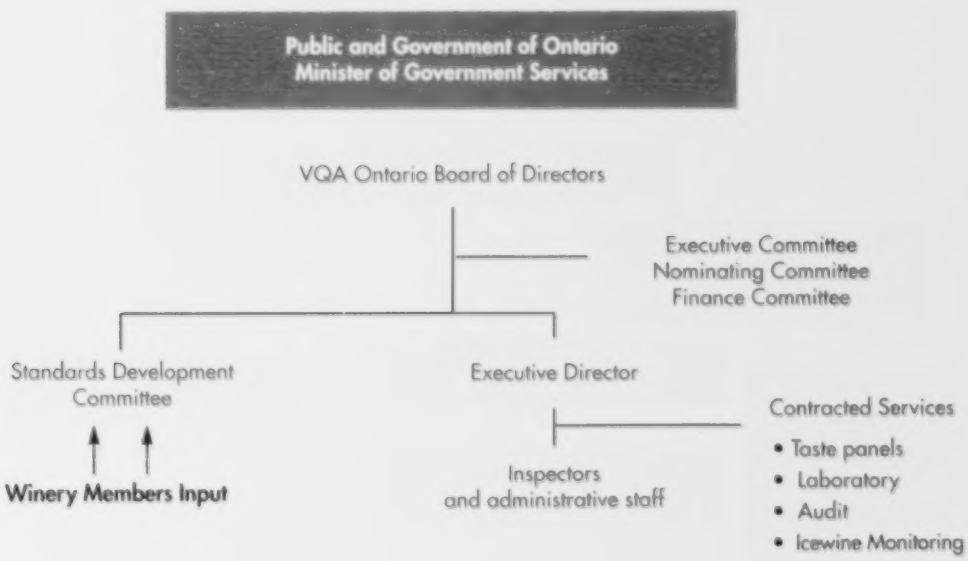
VQA Ontario was incorporated on November 26, 1998 as a not-for-profit corporation to prepare for the implementation of the Vintners Quality Alliance Act, 1999. The VQA Act gained royal assent on May 4, 1999 and was proclaimed into law on June 29, 2000. VQA Ontario is designated as Ontario's wine authority under the Act and is responsible for administering the VQA Act and its regulations under a detailed agreement with the Minister of Government Services.

The VQA Act establishes an "Appellation of Origin" system by which consumers can identify quality wines made in Ontario based on the origin of grapes used, production methods and other standards. Wines produced in accordance with VQA regulations may apply for approval and, if successful, are entitled to use the terms, designations and descriptions regulated under the Act.

In addition to its primary mandate to administer and enforce standards under the VQA Act, VQA Ontario is also committed to work with the grape and wine industry, governments and the public to promote the understanding of the VQA appellation system and promote VQA wines. This includes providing educational and promotional materials and participating in national and international activities related to wine standards and trade.

VQA Ontario is governed by a Board of Directors comprised of nine members elected from its winery members, one representative of the Ministry of Government Services, one representative of the Grape Growers of Ontario and one representative of the Ontario Restaurant, Hotel and Motel Association. The governance structure reflects the principles of self-management, with industry representatives comprising a majority of the Board of Directors with additional representation ensuring balance and accountability. Members of the Board of Directors are listed inside the back cover.

Operations are run by a small permanent staff with assistance provided by the Liquor Control Board of Ontario on a contract for service basis.



VQA Ontario issued 4 compliance orders in cases of violations of the VQA Act and Regulations. All orders involved labelling infractions and resulted in full compliance. Details on enforcement activity are found later in this report.

ACTIVITY REVIEW

VQA Ontario's performance goals include upholding the provisions of the VQA Act and regulations and enhancing consumer recognition of VQA wines and their understanding of the VQA appellation system. The following reports activities during the period April 1, 2005 to March 31, 2006.

Membership

VQA Ontario ended the 2005-2006 year with 86 members including 4 large class wineries (sales of over 750,000 litres of VQA wines) 16 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 66 small wineries (sales of up to 100,000 litres of VQA wines). A total of 8 new wineries joined VQA Ontario. Moderate membership growth is expected to continue into 2007.

Periodic newsletters were distributed to members, keeping them up to date on VQA Ontario's policies and procedures and other developments affecting the industry. Seminars were also conducted for new or prospective members.

ACTIVITY SNAPSHOT

8 new member wineries

993 wines approved

81% success rate for approvals

Chardonnay the top production VQA varietal wine

89 export certificates issued

222 audits and inspections conducted

4 compliance orders issued and resolved

Product Approvals

1222 applications for approval to use the VQA designation and descriptive terms regulated under the VQA Act were processed. Each wine must successfully complete comprehensive quality assurance testing including a taste test, laboratory analysis and packaging review. Approvals were granted for 993 wines, and denied for 229.

Inspections and Audits

131 routine audits were conducted during 2005 – 2006 to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to complete on-site audits on a 5 to 7 month interval, depending on their compliance record. In addition, 91 random inspections were completed at the retail level, focused primarily on ensuring ongoing compliance with VQA packaging and labelling regulations. As a result of audits and inspections, follow up was conducted in 46 cases. The majority of issues addressed were minor in nature, but a few routine inspections resulted in compliance orders.

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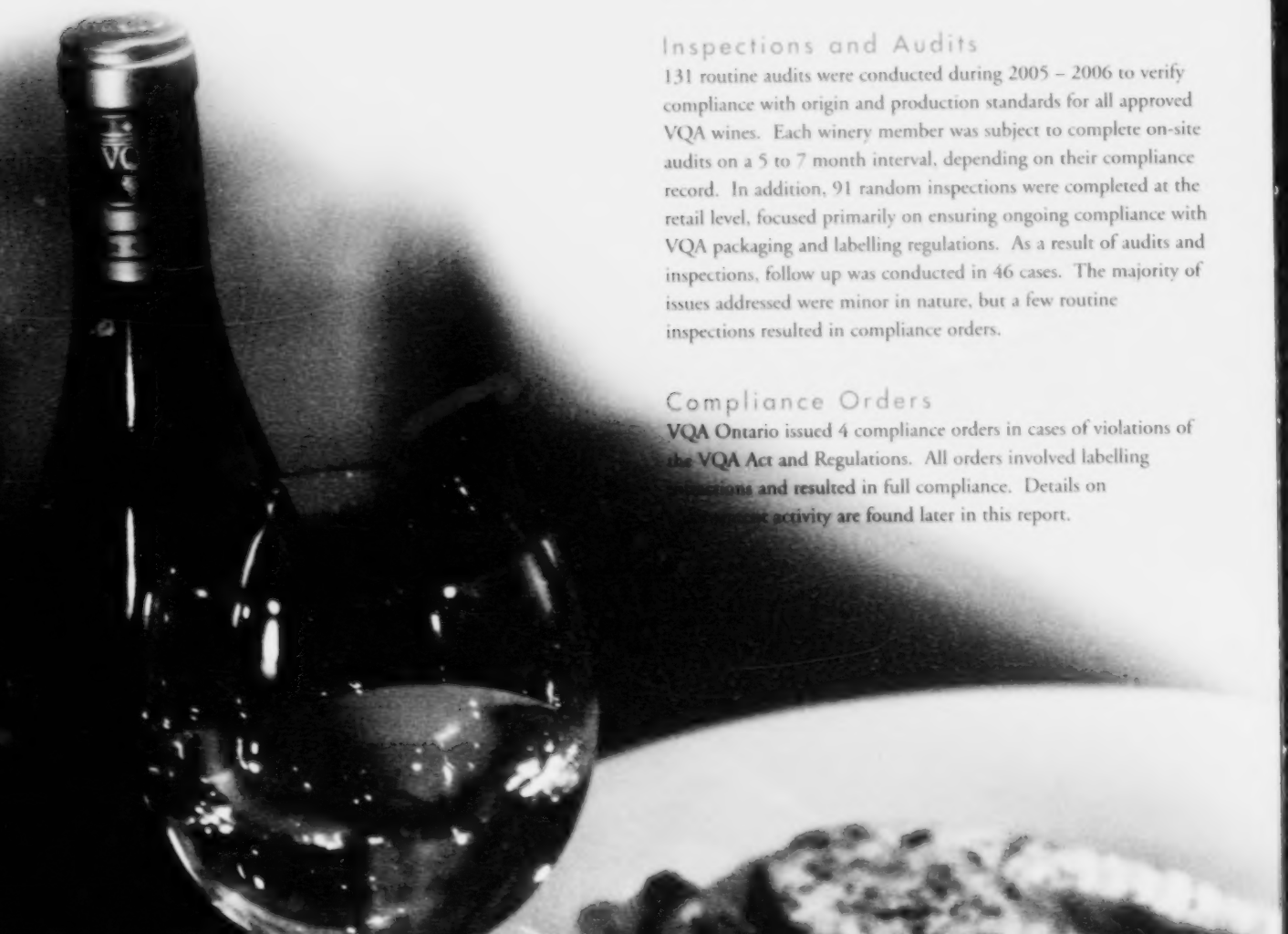


Regulatory Review

As part of VQA Ontario's goal to continuously review and improve the VQA standard, two hybrid grape varieties were deleted from the list of approved varieties.

A major amendment was made to the VQA regulations to create sub-appellations within the Niagara Peninsula. Extensive research and consultation was completed and the regulation was signed into law on November 18, 2005. 12 new regions now enjoy appellation status and protection in Ontario.

Trade and Export Development

Along with other stakeholders from industry and government, VQA Ontario continued to participate in discussions to promote recognition and acceptance of the VQA appellation standard and access to world markets. VQA Ontario provides an independent certification process as required by the European Union as a condition of access to member states. 89 export certificates were issued for wines destined for sale in Europe.

Negotiations also continue on an agreement on labelling pursuant to the existing Mutual Acceptance Agreement on oenological practices with the United States, Australia, New Zealand, Chile and Argentina. The goal of these discussions is to provide streamlined market access within the new world and to harmonize labelling practices where possible. It is also a part of a strategy to protect the integrity of VQA-regulated terms and protect consumers from misrepresentation on wine labels.

The process to develop a national standard for VQA wines and other Canadian wines continued throughout the year under the direction of Agriculture and Agrifood Canada. The National Wine Standards Committee reached an agreement on the wine-making elements of the national wine standards in 2005 but substantial work remains to address the implementation framework. VQA Ontario continues its input to the process to work towards a national standard that maintains the principles of origin and quality for appellation wines that are embodied in the VQA Act in Ontario.

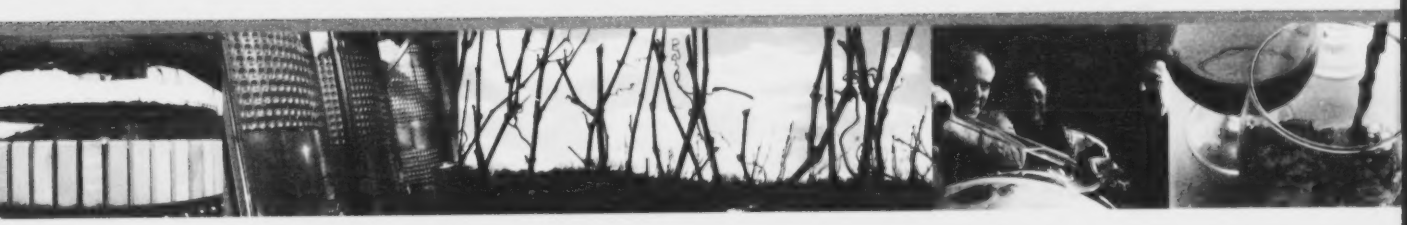
Public Education and Communications

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA wines, quality standards and the value of a regulated appellation system.

The majority of financial resources in this area were devoted to the Ontario Wine Strategy program to promote and market VQA wines to Ontario consumers. Funded jointly by industry, VQA Ontario and the Province of Ontario, one of its key components is a generic marketing campaign focused on VQA wines.

Other activities included:

- Presentations to various groups and conferences, with a particular emphasis on wine professionals
- Providing information to media
- Responding to inquiries or complaints from consumers
- Providing online information to member wineries and the public about VQA



ONTARIO'S VQA WINES

The Year in Review (2005 – 2006)

VQA Wine Sales – Year ending March 31, 2006

By Volume

	Litres (2006)	Litres (2005)	% Change
Winery Retail	3,483,631	3,268,723	7%
Licensees	2,593,748	1,629,380	59%
LCBO (shipped)	3,796,468	3,275,873	16%
Outside of Ontario and miscellaneous	897,184	964,706	- 7%
Total*	**10,771,031**	**9,138,681**	**18%**

By Retail Value

	Retail value ($) (2006)	Retail value ($) (2005)	% change
Winery Retail	73,062,263	66,405,304	10%
Licensees	35,588,939	23,889,535	49%
LCBO (shipped)	64,257,334	55,773,214	15%
Outside of Ontario and miscellaneous	32,856,479	37,712,132	- 13%
Total*	**205,765,014**	**183,780,184**	**12%**

* Figures may not correspond exactly due to rounding errors

VQA WINE APPROVALS AND PRODUCTION

These figures are based on volumes declared at the time a wine is submitted for VQA approval (they do not include wines that are still in process or aging prior to submission for approval)

Total number of applications for VQA approval received 1222

Total number of wines approved for VQA status 993

Total volume of approved wines ..... 16,155,279 Litres

Total estimated grape tonnage represented ..... 22,000 tonnes

Production at a glance

(April 1, 2005 – March 31, 2006, totals rounded)

Wine Category	Number of Products	Volume (cases)	Change from last year
Table Wine	820	1,629,534	Up 76%
Icewine	110	90,275	Up 53%
Late Harvest	41	21,305	Up 69%
Sparkling	19	37,157	Up 490%

*Production for Icewine and Late Harvest wines is reported in 4.5 litre cases. All other production is reported in 9 litre cases.

TABLE WINES

The table wine category includes all still wines but does not include sweet wines. The overall production of table wine rebounded strongly from the previous year when production was reduced by about half because of the 2003 grape crop shortage. In particular, the volume of red varietal wines increased dramatically - more than doubling. Production volumes for white varietals were also up significantly, but at increments less than reds reflecting less severe damage to white wine varieties in the vineyard in 2003. Large fluctuations in production are anticipated over the next two years as grape production responds to variable winter stresses.

Chardonnay and Riesling continue to be the most popular white varietals based on volume, and Cabernet Franc remains the leading red varietal. Baco Noir and Cabernet Sauvignon have also experienced strong growth and constitute a major portion of the production of varietal red wines. No trends in varietal production can be suggested because of the unknown impact of recent winter damage on the future of specific varietals. The appearance of Pinot Gris and Shiraz as a small but growing component of varietal VQA wines is an interesting development.

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WINE PRODUCTION BY CATEGORY

Single Varietal Wines by Grape Variety

SINGLE VARIETAL	Year ending March 31, 2006			Year ending March 31, 2005			Year over Year % change (volume)
	Number of wines approved	Volume (9 litre cases)	Volume (litres)	Number of wines approved	Volume (9 litre cases)	Volume (litres)	
WHITE WINES							
Chardonnay	155	424,337	3,819,033	126	150,366	1,353,294	182%
Riesling	85	156,622	1,409,598	78	123,121	1,108,089	27%
Vidal	33	76,044	684,396	34	88,420	795,780	- 14%
Sauvignon Blanc	26	23,196	208,764	20	17,699	159,291	31%
Gewurztraminer	23	14,145	127,305	19	20,458	184,122	- 31%
Pinot Gris/Grigio	26	31,552	283,968	17	9,723	87,507	225%
TOTAL WHITE	**348**	**725,896**	**6,533,064**	**294**	**409,787**	**3,688,083**	**77%**
RED WINES							
Cabernet Franc	53	150,939	1,358,451	49	50,963	458,667	196%
Cabernet Sauvignon	35	92,507	832,563	39	24,422	219,798	279%
Merlot	37	57,026	513,234	34	25,648	230,832	122%
Gamay	31	35,110	315,990	33	34,384	309,456	2%
Pinot Noir	59	45,438	408,942	28	32,563	293,067	40%
Baco Noir	36	131,492	1,183,428	24	39,192	352,728	236%
Foch	8	8,217	73,953	13	9,003	81,027	- 9%
Shiraz/Syrah	8	3,680	33,120	6	1,480	13,320	149%
TOTAL RED	**267**	**524,409**	**4,719,681**	**226**	**217,655**	**1,958,895**	**141%**
Other (13 varietals)	38	54,456	490,104	27	15,555	139,995	250%
TOTAL	**653**	**1,304,761**	**11,742,849**	**547**	**642,997**	**5,786,972**	**103%**

Late Harvest wines- (including Botrytis affected wines)

WINE CATEGORY	Year ending March 31, 2006			Year ending March 31, 2005			Year over Year % change (volume)
	Number of wines approved	Volume (4.5 litre cases)	Volume (litres)	Number of wines approved	Volume (4.5 litre cases)	Volume (litres)	
Late Harvest	15	9,473	42,629	10	8,442	37,989	12
Select Late Harvest	18	9,973	44,879	12	4,045	18,243	146
Special Select Late Harvest	8	1,859	8,366	*	142	639	1209
TOTAL	**41**	**21,305**	**95,874**	**22**	**12,629**	**56,871**	**69**

* less than 5

Sparkling and Fortified wines

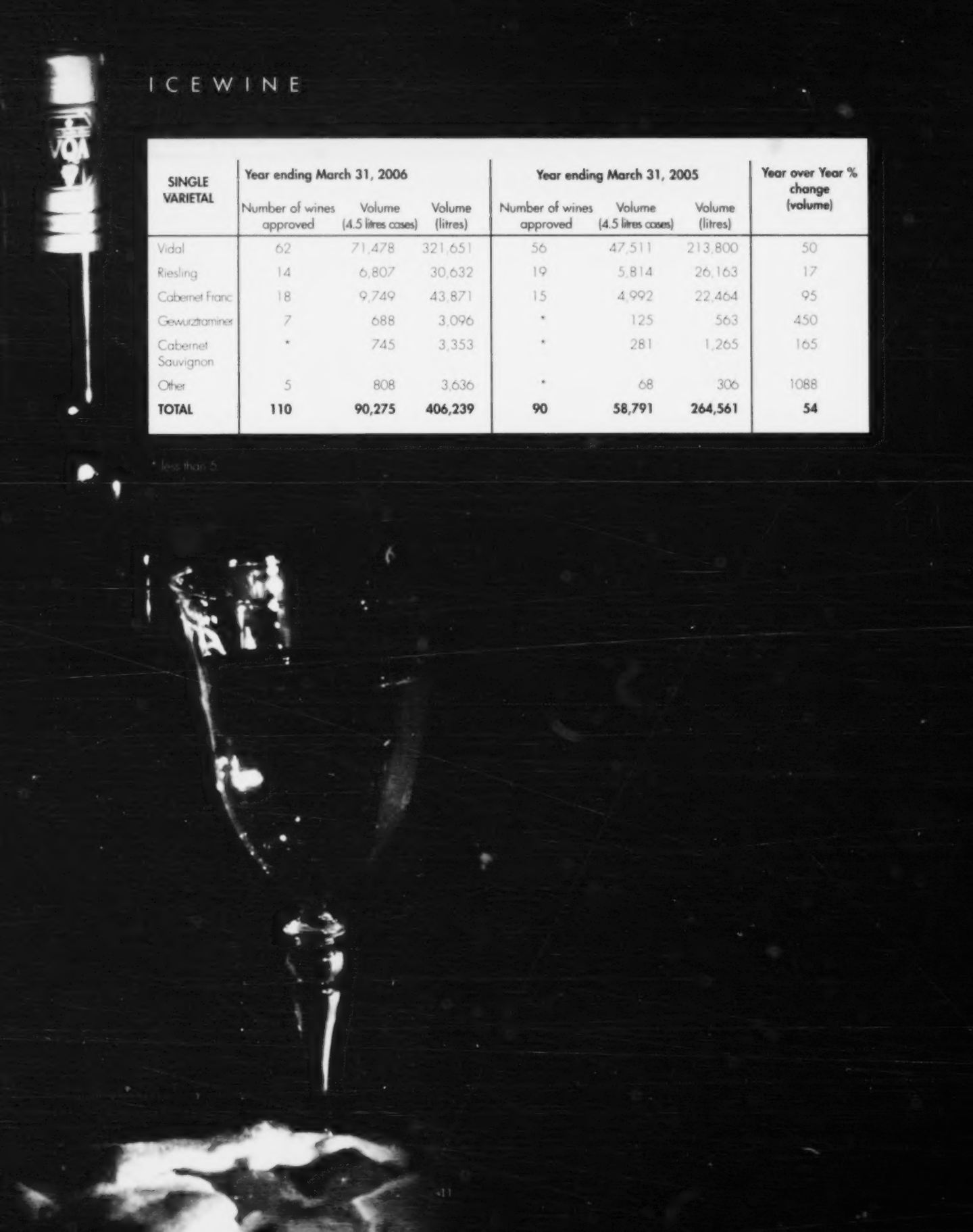
WINE CATEGORY	Year ending March 31, 2006			Year ending March 31, 2005			Year over Year % change (volume)
	Number of wines approved	Volume (9 litre cases)	Volume (litres)	Number of wines approved	Volume (9 litre cases)	Volume (litres)	
Sparkling wines	19	40,657	365,913	9	6,288	56,592	547
Fortified wines	*	433	3,900	*	491	4,419	- 12

* less than 5

ICEWINE

SINGLE VARIETAL	Year ending March 31, 2006			Year ending March 31, 2005			Year over Year % change (volume)
	Number of wines approved	Volume (4.5 litres cases)	Volume (litres)	Number of wines approved	Volume (4.5 litres cases)	Volume (litres)	
Vidal	62	71,478	321,651	56	47,511	213,800	50
Riesling	14	6,807	30,632	19	5,814	26,163	17
Cabernet Franc	18	9,749	43,871	15	4,992	22,464	95
Gewurztraminer	7	688	3,096	*	125	563	450
Cabernet Sauvignon	*	745	3,353	*	281	1,265	165
Other	5	808	3,636	*	68	306	1088
TOTAL	**110**	**90,275**	**406,239**	**90**	**58,791**	**264,561**	**54**

* less than 5



Winter conditions preceding the 2005 season had a major impact on the 2005 grape crop.

In Lake Erie North Shore and Pelee Island, temperatures were moderate and vines over-wintered fairly well. In the Niagara Peninsula, typically the VQA viticultural area with the largest grape production, a severe cold event in January 2005 caused significant bud damage, particularly in the Niagara-on-the-Lake area. Many vineyards saw significantly lower average crop yields and a few did not produce a commercially viable crop. The overall availability of grapes for VQA wines was reduced by an estimated 50% in comparison to a full harvest. Data from the Grape Growers of Ontario shows the tonnage of vinifera grape varieties decreased by approximately two-thirds when compared with the 2004 vintage.

The extent of winter damage varied widely depending on vineyard location, micro climates and the local topography. Grape production from tender varieties such as Merlot and Gewurztraminer was especially affected in areas where vines were still recovering from previous cold weather damage in early 2003. Other popular varieties fared a bit better however, including Riesling, Pinot Gris, Pinot Noir and Baco Noir. Also on a positive note for wine quality, natural yield limitations resulting from fewer viable buds set the stage for good overall quality at harvest.

Once spring arrived, the growing season was excellent with warm and dry conditions. The combination of natural yield restrictions from the winter cold and abundant sunshine throughout the summer months ensured early ripening and fully mature grapes at harvest. Harvest began relatively early – late August in Pelee Island and Lake Erie North Shore and mid-September for the Niagara Peninsula. Autumn rain was sporadic during the harvest season, causing some isolated delays in picking but with little detrimental effect on the overall quality of the vintage.

Overall, the vintage is expected to be quite good, showing good flavour concentration and fruit character.

As with the regular harvest, the Icewine harvest was about one-half of the previous year's harvest. Very few vinifera grapes were left hanging for Icewine both because of their limited availability and the fear of breakdown due to early ripening. Harvest conditions for Icewine were excellent and the harvest began early in the season. The early harvest protected against excessive deterioration and delivered grapes in good condition and so pressing yields were generally high. Vidal grapes provided a large majority of the juice pressed with fewer pressings of juice from vinifera varieties this year. Full details of the Icewine harvest are set out below.

Late Harvest and Icewine Monitoring

Late harvest reports were filed by November 15 for all grapes left hanging beyond that date and checking and monitoring continued through to the Icewine harvest. Total tonnage netted was estimated at 2722 tonnes down 53 percent from last year's record 5808 tonnes.

Independent brix testing was conducted for all Late Harvest and Icewine grapes for the 2005 vintage harvest. The sudden onset of cold weather started the Icewine season on November 24, 2005 and periodic Icewine picking continued until February 23, 2006 when the harvest was completed. The majority of the crop was picked before January 1, 2006.

Yields and sugar levels for both the Late Harvest and Icewine categories were good to excellent and quality is expected to be very good.

2005 Vintage Estimates – Late Harvest and Icewine

(may be adjusted when fully audited)

VARIETY	Icewine Juice (Litres)			Late Harvest Juice (Litres)		
	2005 Vintage	2004 Vintage	% change	2005 Vintage	2004 Vintage	% change
Vidal	513,392	688,966	- 25	24,667	140,788	- 82
Riesling	12,303	102,794	- 88	4,986	17,815	- 72
Cabernet Franc	14,260	89,480	- 84	3,750	190	1874
Gewurztraminer	-	6,110	-	-	-	
Cabernet Sauvignon	2,030	5,275	- 62	1,650	975	69
Others	-	7,545	-	2,600	11,850	- 78
TOTAL	**541,985**	**900,170**	**- 40%**	**37,653**	**171,618**	**- 78%**

ENFORCEMENT ACTIVITY

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. The regulatory process starts with the monitoring of grape quality at harvest through independent sugar testing, regular auditing and reconciling of wine making processes and record-keeping. Once the wine is finished and submitted for VQA approval, taste tests, laboratory tests and label reviews are completed. Only after having successfully completed this process can a wine receive approval and be released for sale, using designated terms and descriptions.

Last year, we conducted 131 full on-site audits, taking from 1 to 3 days each and an additional 91 random, unannounced retail inspections at winery retail stores, LCBO stores and licensees.

As a result of these activities, a number of problems were uncovered and corrected, most related to minor labelling violations such as placement of variety names, or graphic discrepancies with the VQA logo. The most serious violations found were cases where wineries had offered VQA wines for sale before receiving approval. In most cases, these wines were intended to be VQA wines and were in the approval process. These wines were ordered removed from all channels of sale until they were approved, and in many cases, approval followed and the wines were re-released.

Some investigations led to compliance orders and resulted in financial consequences for the winery involved.

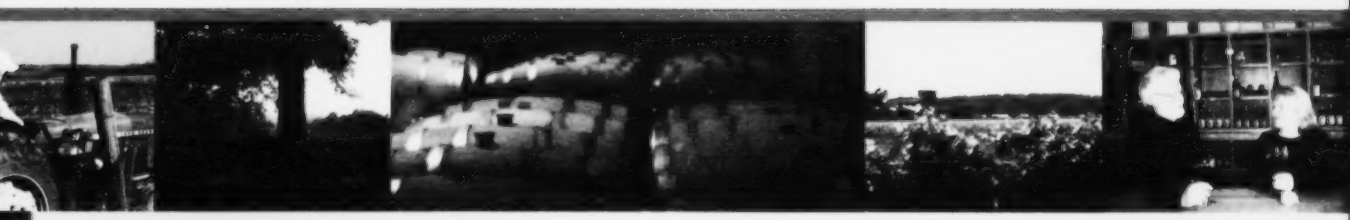
An appeal hearing was held before a tribunal of the Alcohol and Gaming Commission on April 15 and 21, 2004. The appeal was in regard to the suspension of a product approval issued to a winery member in December 2003. VQA Ontario alleged that a 2002 vintage-dated wine contained 2001 vintage wine in violation of Regulation 406, section 3 of the VQA Act and therefore was not entitled to approval. The winery contested VQA Ontario's conclusion regarding the blending records and appealed the suspension. The tribunal issued its findings in April of 2005, upholding VQA Ontario's actions.

VQA Ontario also conducts random Quality Assurance Reviews (QARs) on VQA wines to ensure ongoing product integrity. This involves selecting approved wines on a random basis from a retail setting and re-testing these wines. This allows us to verify that the wine in the bottle is the same wine that was approved. A total of 37 QARs were conducted last year.

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are relatively minor and many are uncovered and corrected before products reach the consumer market. Winery compliance with correction requests is excellent and few infractions require compliance orders to achieve compliance.

Summary of Compliance Orders

	Alleged Violation	Action
April 2005	Use of "Icewine" on non-VQA wine	Cease and desist order.
October 2005	Use of "estate bottled" on wine containing hybrid grapes	Wine removed from sale pending label correction.
November 2005	Use of VQA terms (VQA, Icewine, Niagara Peninsula) on non-VQA wines	Wine removed from sale pending approval.
March 2006	Failure to comply with conditions of approval	Wine removed from sale pending label correction.



Resourcing

VQA Ontario is funded by its member wineries through sales levies and fees for service. It continues to seek out ways to maximize the efficiency of service delivery, including sharing services with other agencies. VQA Ontario acknowledges the Liquor Control Board of Ontario for its assistance and cooperation in providing contracted services that increase VQA Ontario's efficiency in performing its regulatory role.

Financial Summary

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2006.

Expenditures exceeded revenue by $41,087 for the year ended March 31, 2006 for a much smaller deficit than forecast. Revenues recovered by $94,091 over last year to $897,017 but bottle fee revenue has not yet returned to levels seen before the 2003 crop shortage. Expenses declined slightly, by $33,484 to $938,104. Net assets carried forward are $782,958, down from $824,045 in 2005, reflecting the operating deficit. This includes restricted funds in the amount of $200,000 that is allocated to a legal contingency fund.

VQA Ontario will continue its tight budgetary control into the next fiscal year but expects the operating deficit to increase substantially as the short crop affects VQA sales. Existing assets will be used to cover the operating deficit.

Revenue for fiscal 2006 of $897,017 was derived primarily from member bottle fees ($581,384).

Total expenditures for the year were $938,104 with major expenses including quality testing and monitoring ($251,583), insurance and professional fees ($52,172), public education ($250,000) and employee costs ($304,445).

Kopstick Osher
Chartered Accountants, LLP

Mark Kopstick C.A.
Benjamin Osher C.A.
William Genga B.Comm.
In association with
Reiner Goebel C.A.

AUDITORS' REPORT

To the Board of Directors,
Vintners Quality Alliance Ontario

We have audited the statement of financial position of Vintners Quality Alliance Ontario as at March 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kopstick Osher

Toronto, Canada
June 1, 2006

KOPSTICK OSHER
Chartered Accountants, LLP

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VINTNERS QUALITY ALLIANCE ONTARIO
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2006

	2006	2005
ASSETS		
Current		
Cash and short-term investments	$ 806,729	$ 868,159
Accounts receivable	52,752	52,113
Sundry assets	69,651	8,786
	929,132	929,058
Capital - Note 2	9,529	13,505
	$ 938,661	$ 942,563
LIABILITIES		
Current		
Accounts payable and accruals	$ 114,973	$ 89,093
Deferred revenue - Note 3	40,730	29,425
	155,703	118,518
NET ASSETS		
Net assets	782,958	824,045
	$ 938,661	$ 942,563

APPROVED BY THE BOARD:

The accompanying notes form an integral part of these financial statements.

Kopstick Osher
Chartered Accountants, LLP

VINTNERS QUALITY ALLIANCE ONTARIO
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2006

	Invested in capital assets	Internally restricted for legal and enforcement fund	Unrestricted	2006 Total	2005 Total
Net assets - beginning of year	$ 13,505	$ 400,000	$ 410,540	$ 824,045	$ 992,707
Excess of revenues over expenses (expenses over revenues)	-	-	(41,087)	(41,087)	(168,662)
Amortization of capital assets	(3,976)	-	3,976	-	-
Interfund transfer -Note 4	-	(200,000)	200,000	-	-
Net assets - end of year	$ 9,529	$ 200,000	$ 573,429	$ 782,958	$ 824,045

The accompanying notes form an integral part of these financial statements.

Kopstick Osher
Chartered Accountants, LLP

VINTNERS QUALITY ALLIANCE ONTARIO

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005
Revenues		
Membership fees	$ 84,500	$ 76,500
Bottle fees	581,384	534,864
Approval fees	188,807	158,040
Other income	42,326	33,522
	897,017	802,926
Expenses		
Salaries and benefits	304,445	308,641
Contracted services	12,380	18,520
Public education	250,000	250,000
Approvals	212,520	159,021
Quality assurance and inspection	26,683	16,309
Export development and trade	2,025	22,930
Sub-appellations	-	11,070
Sponsorships	-	5,000
Weather monitoring	4,000	4,000
Meetings	8,442	6,611
Travel	3,975	9,178
Rent and occupancy	39,566	39,566
Office and general	16,613	17,818
Printing and mailing	11,123	10,389
Telephone and communications	4,534	5,319
Insurance	30,405	31,001
Professional services	21,767	49,761
Recovery of professional services	(14,350)	-
Amortization	3,976	6,454
	938,104	971,588
Excess of revenues over expenses (expenses over revenues)	$ (41,087)	$ (168,662)

The accompanying notes form an integral part of these financial statements.

Kopstick Osher
Chartered Accountants, LLP

VINTNERS QUALITY ALLIANCE ONTARIO

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005
Cash flows from operating activities		
Excess of revenues over expenses (expenses over revenues)	$ (41,087)	$ (168,662)
Non-cash items:		
Amortization	3,976	6,454
Net change in non-cash working capital	(24,319)	(69,293)
	(61,430)	(231,501)
Cash flows from investing activities		
Purchase of capital assets	-	(8,524)
Cash flows from financing activities	-	-
Increase (decrease) in cash and short-term investments	(61,430)	(240,025)
Cash and short-term investments - beginning of year	868,159	1,108,184
Cash and short-term investments - end of year	$ 806,729	$ 868,159

The accompanying notes form an integral part of these financial statements.

VINTNERS QUALITY ALLIANCE ONTARIO

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

1. Significant accounting policies

Purpose and legal form of the organization

Vintners Quality Alliance Ontario is an independent organization that administers the Vintners Quality Alliance Act, 1999 and its regulations through an administrative agreement with the Ontario government. It establishes, monitors and enforces a system of quality assurance and verification of product origin for wines bearing the VQA logo.

Vintners Quality Alliance Ontario exists as a not-for-profit corporation without share capital. It is not subject to income tax.

Revenue recognition

Vintners Quality Alliance follows the deferral method of accounting for revenues. All revenues are recognized in the year to which they pertain.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at the following annual rates:

Computer equipment and software	20%
Office furniture and equipment	20%

Contributed materials and services

The organization receives substantial contributed services from members and others through participation on the Board of Directors and other committees. Because of the difficulty in determining their fair value, such services are not recorded in these financial statements.

2. Capital assets

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Computer equipment and software	$ 12,645	$ 6,085	$ 6,560	$ 9,089
Office furniture and equipment	7,234	4,265	2,969	4,416
	$ 19,879	$ 10,350	$ 9,529	$ 13,505

VINTNERS QUALITY ALLIANCE ONTARIO

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

3. Deferred revenue

Deferred revenue represents membership fees and product approval fees received, which relate to the subsequent year.

4. Net assets internally restricted for legal and enforcement fund

The Board of Directors have approved the reduction of internally restricted net assets to $200,000. These net assets are restricted for the purpose of funding costs of enforcing adherence to the regulations of the Vintners Quality Alliance Act.

5. Commitments

The organization has a 5 year sub-lease with the LCBO effective April 1, 2003 for space it occupies. Rent over the remaining 2 years is $38,400 per annum.

VINTNER'S QUALITY ALLIANCE ONTARIO

BOARD OF DIRECTORS
March 31, 2006

Officers

Greg Berti
Andres Wines Ltd.
President and Chair, VQA Ontario

Paul Speck
Henry of Pelham Family Estate Winery
Vice-Chair, VQA Ontario

Ken Douglas
Thirteenth Street Winery
Secretary/Treasurer, VQA Ontario

Len Pennachetti
Cave Spring Cellars
Past-Chair, VQA Ontario

Directors – elected from membership

Paul Lizak
Legends Estate Winery

Stu Morgan
Lakeview Cellars Estate Winery

Rob Scapin
Vincor Canada

Walter Schmoranz
Pelee Island Winery

Ron Speranzini
Willow Heights Estate Winery

Directors-appointed

Mary Shenstone
Ontario Ministry of Government Services

William George Jr.
Grape Growers of Ontario

Terry Mundell
Ontario Restaurant, Hotel and Motel Association

Statutory Appointments

Laurie Macdonald, VQA Inspector
Barbara Dodds, VQA Inspector

VQA Ontario staff

Laurie Macdonald, Executive Director
Barbara Dodds, Executive Assistant

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Eli Milewich - Cover Shot

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Mike Bondyuk - Marketing and Sales For Rack Outlaw

Judy Fraser - The George & Annie Edmund Fraser Winery

Ron Lecuit - Rockin' Electric Winery

Stephen J. Dennis - www.atmosphere-photographer.com

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